

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 26, 2009

Mr. Thomas Bolich
Director of Public Works
County of Santa Cruz
Department of Public Works
701 Ocean Street, Room 410
Santa Cruz, CA. 95060-4070

Re: County of Santa Cruz, Department of Public Works
Audit of Indirect Cost Rate Proposal for Fiscal Year 2005/2006
File Number: P1590-0003 (P1190-0635)

Dear Mr. Bolich:

We have audited the County of Santa Cruz, Department of Public Works' (DPW) Indirect Cost Rate Proposal (ICRP) for the fiscal year (FY) ended June 30, 2006, to determine whether the ICRP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. DPW management is responsible for the fair presentation of the ICRP. DPW proposed an indirect cost rate of 42 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of DPW. Therefore, we did not audit and are not expressing an opinion on DPW's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by DPW, as well as evaluating the overall presentation.

Mr. Bolich
June 26, 2009
Page 2

The accompanying ICRP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of DPW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of DPW's single audit report for the FY ended June 30, 2006, inquiries of DPW personnel, reliance placed on the single audit report for the FY ended June 30, 2006, and prior audit field work performed by the Department in June 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, DPW's ICRP for the FY ended June 30, 2006, is presented in accordance with 2 CFR Part 225 and the Department's LPP 04-10. The approved indirect cost rate is 42 percent of total direct salaries and wages, plus fringe benefits. The indirect cost rate for FY ended June 30, 2006, is based on actual costs, thus the carry forward provision does not apply.

This report is intended solely for the information of DPW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICRP for your files. Copies were sent to the Department's District 5, the Department's Division of Accounting, and FHWA. If you have any questions, please contact Evajuani Bynum, Auditor, at (916) 323-7879 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

Mr. Bolich
June 26, 2009
Page 3

- c: Brenda Bryant, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass
Transportation
- David Saia, Senior Transportation Engineer, Policy, Development and Quality
Assurance, Division of Local Assistance
- Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch,
Division of Accounting
- Mike Giuliano, Senior Transportation Engineer, District 5
P1590-0003 (P1190-0635)

**County of Santa Cruz Department of Public Works
Indirect Cost Rate Proposal**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the County of Santa Cruz Department of Public Works and approved by Caltrans.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final based on actual costs	7/01/05 to 6/30/06	42.00%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rate in this Agreement is subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rate is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The costs used in the calculation of the rate are from the grantee's audited financial statements for the fiscal year ended June 30, 2006.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The final rate used in this Agreement is based upon actual costs for the period covered by the rate, therefore, a carry forward provision does not apply.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2005-06 Actual Indirect Costs	\$8,379,712
Carry Forward from FY 2004-05	\$ 0
FY 2005-06 Actual Indirect Costs	\$8,379,712
FY 2005-06 Actual Direct Salaries and Wages plus Fringe Benefits	\$19,953,270
FY 2005-06 Indirect Cost Rate	42.00%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2006 (July 1, 2005 to June 30, 2006) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rate.

I declare that the foregoing is true and correct.

Governmental Unit: SANTA CRUZ COUNTY PUBLIC WORKS

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Len Dreyer

Len Dreyer

DPW Fiscal Officer

DPW Fiscal Officer

Date of Execution: 3/22/07

(831) 454-2160

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Signature

Reviewed and Approved by:

Reviewed and Approved by:

Amada Maenpaa

Evajuan D. Bynum

Name of Audit Manager

Name of Auditor

Title: Senior Mgmt Auditor

Title: Auditor

Date: June 26, 2009

Date: June 26, 2009

Phone Number: _____

Phone Number: _____